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Restaurant Business

A BILL PUBLICATION

THE CHANGING FACE OF CHI-CHI'S

HOW TO P.O.P.? PUT ON PROMOTIONS!
THE SEAFOOD WAVE/MENU IDEAS FROM THE RB TEST KITCHEN
LATELINE/NRA GEARS UP FOR TIP CREDIT BATTLE

BUSINESS BAROMETER

The Hard Facts Shaping Our Industry

By Howard Riell

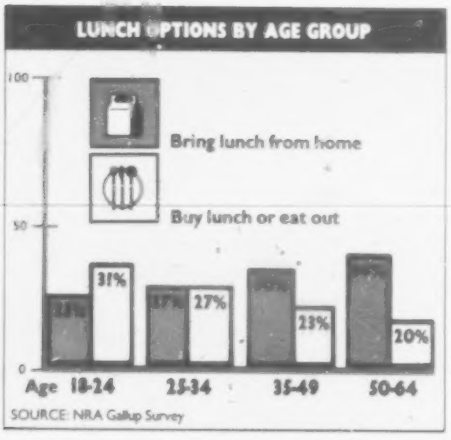
HISPANICS' USE OF COUPONS
47 percent of Hispanics surveyed redeem five or more coupons per week
'Sometimes' use coupons 42%
'Almost always' use coupons 48%
Less usage 10%
SOURCE: Donnelley Marketing; The Lempert Report

Marketers Begin to Target Hispanics

The numbers are pouring in, and it appears that niche marketing—targeting specific ethnic subcultures with ads and merchandising designed to appeal to their specific tastes—may soon come into its own. Several surveys indicate that the nation's Hispanic population (18.8 million as of last March—up 30% since 1980, and now about 7.5% of the total U.S. population) should be looked upon as a major growth market. One study shows that Hispanic families had a median income of $22,900 in 1987, up 15.1% from 1985 (median income for all Americans was about $32,800). Their use of coupons remains significant, and is expected to keep rising.

Sending A Trendy Message In A Bottle

It began with a media blitz in 1975, according to the National Restaurant Association, and has grown—and will continue to grow—into a major trend in foodservice. Bottled waters now show the most staggering growth of any tableservice restaurant beverage. The evolving move away from alcoholic beverages, together with an increased interest in health and some slick, upbeat advertising, have paved the way. The NRA reports that the number of restaurant patrons who order bottled water has quadrupled since 1980, and consumption has jumped 500%. More than 600 different labels are bottled in the U.S.



Who's Bagging, and Who's Buying, Lunch

A Gallup Survey, commissioned and reported by the NRA, profiled lunchtime eating habits for working consumers. In addition to the numbers at left, Gallup found that in the average work week, lunches for daytime workers break down as follows: 35% brought from home; 35% purchased or eaten out; 15% eaten at home. Fourteen percent skipped the meal entirely. Not suprisingly, workers with a college education and incomes of $30,000 or more tend to buy lunch out more than those with less than a high school diploma or with low to moderate incomes. But most workers won't go far: They report that they have just 30 to 45 minutes to eat.

CHARTS DESIGNED BY SHARTFAX

Restaurant Business

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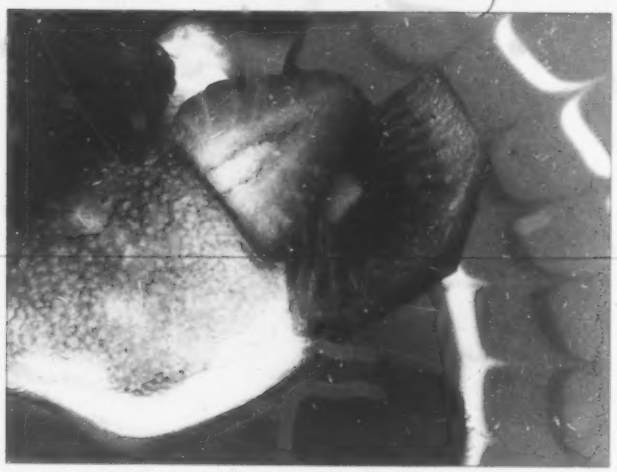

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Cover photograph of Hal Smith
by Todd Buchanan/Black Star

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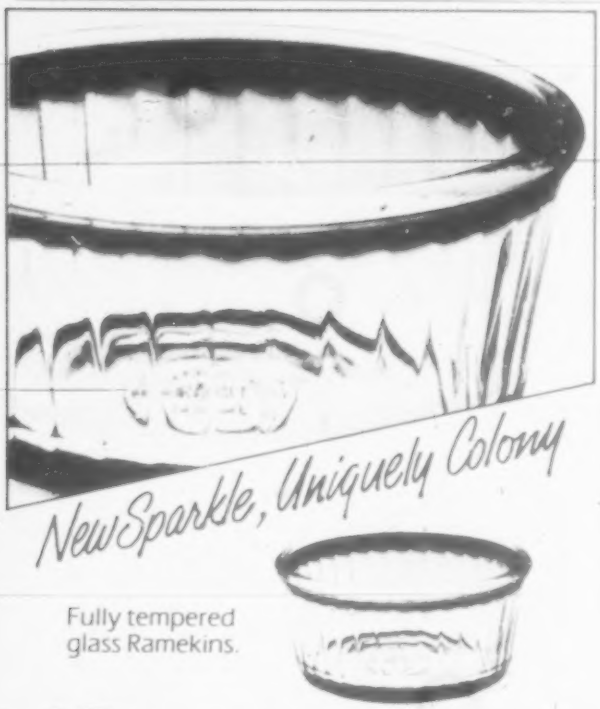

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CATWOMAN TURNS CHICKENWOMAN

Actress Julie Newmar, best known for her portrayal of the arch-villainess Catwoman on TV's Batman *series, dishes out El Pollo Loco charbroiled chicken to needy people at Los Angeles' First Baptist Church. The event was part of a program that operates among 17 area churches.*

Dennis MacNeil will hold court.

Each class also includes a mini-workshop conducted by such industry personalities as Sirio Maccione, Kenji Seki, Alex Von Bidder, and Walter Weiss.

The class, to be held Tuesdays from 2:30 to 5 p.m. through May 3, costs $345. Discounts are available to restaurants and hotels sending multiple participants. For registration and information contact the New York Professional Service School, at 212-439-1714, or Karen MacNeil, at 212-864-5598.

LEVY HELPS DISNEY TARGET ADULTS ON PLEASURE ISLAND

The opening of Levy Restaurants' Portobello Yacht Club and The Fireworks Factory restaurants at Disney World's Pleasure Island nighttime entertainment complex next fall will enable Disney to get a bead on the adult market for the first time.

Levy has signed a 20-year lease with Orlando-based Disney to operate the restaurants, which should generate combined year-end sales of $20 million, according to chairman Larry Levy. Each restaurant is expected to serve about 2,000 meals a day. The Chicago-based restaurant company is investing $5.5 million to develop and operate the restaurants.

The Levy Organization, with annual sales of $60 million from its 25 restaurants in the U.S., promises to be innovative with the new concepts. According to Levy, each will serve lunch and dinner and offer customers a dining experience inspired by the Disney tale of Merriweather Adam Pleasure, a mythological sailmaking entrepreneur whose business and personal adventure created the legendary Pleasure Island.

Set in Merriweather's former home, Portobello Yacht Club will highlight Pleasure's love of sailing, as well as his wife's Italian heritage. The 340-seat restaurant, with a check average of $20, will feature a Northern Italian menu that includes authentic wood-burning oven-baked pizzas, homemade pastas, fresh seafood, and such desserts as chocolate and pistachio cannoli.

The 10,000-sq.-ft. restaurant will boast an interior landscape recalling a sunny day on the Italian Riviera, combining high gables and beamed ceilings with marine colors and terra-cotta tiles. Decor will include sailboat models, photographs, navigational charts, and yachting pennants.

Designed by Levy architect Joe Meisel, Portobello Yacht Club will also boast an outdoor terrace evoking the mood of an elegant cruise ship. The bar will be outfitted with mahogany deck paneling with brass and chrome fixtures, and will serve as a showcase for fresh fruit, dessert specials, and wine. Beyond the bar will be a display kitchen.

Architect Meisel is also designing The Fireworks Factory, a 320-seat barbecue-theme restaurant set in the very building where the mythical Pleasure's fireworks were once manufactured.

The two-level restaurant will showcase several all-you-can-eat entrees, including four kinds of barbecued ribs (spare, baby back, beef, and veal) and Southern fried chicken.

Also on the menu will be barbecued chicken, homemade cornbread, and "Dynamite Chocolate Cake."

Check averages will be about $18 per person.

HORN & HARDART LBO STILL HANGS IN POST-CRASH LIMBO

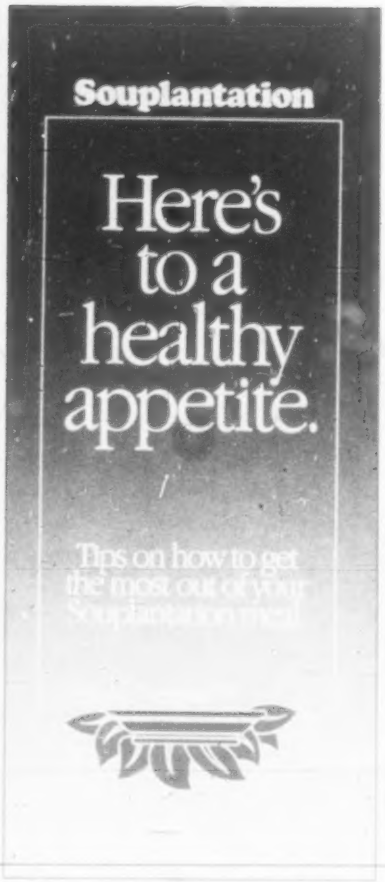
At press time there was still no word on the planned leveraged buyout of Horn & Hardart that was scotched by the stock market crash of Black Monday, October 19.

Senior vice president Norman Sylvester refused to comment beyond a rereading of a public statement first issued on October 21, in which the company announced that "at the time of the broad market decline, the company was engaged in discussions in which certain persons, including certain management members," had offered to take the company private. "In light of uncertainties of financial markets with respect to financing any such offer," the statement concluded, "it is unlikely that the discussion will result in an offer at this time." The company's stock had been selling at the $12 to $13 per-share range at the time of the crash. The company repurchased about 12% of its stock soon afterward.

Sylvester would neither confirm nor deny whether those "certain management members" were headed by chairman and chief executive Barry W. Florescue. Florescue refused to comment on the issue.

CORRECTION

In the Market Segment Report on hamburgers, which ran in the Jan. 1, 1988, issue, the number of McDonald's units was incorrectly reported. McDonald's had approximately 9,800 units as of year-end 1987.



Souplantation's nutrition brochures promote the concept's healthy image and menu items.

er's clubs. Taking a cue from the airlines, many independent restaurateurs have inaugurated plans designed to reward frequent diners.

In an increasingly competitive environment, it is important to keep diners returning to an establishment, and the Osteens of Pawleys Island Inn Restaurant feel they have found a ticket for that. "We're trying to give our business customer a personal perk, just like the airlines do," says Marlene Osteen. "We're trying for increased customer loyalty." The plan was only recently put into effect, so results are hard to predict, but diners receive one point for every dollar spent at Pawleys Island Inn, The Waccamaw Neck Cafe, or the couple's deli-bakery.

Participants will receive a monthly statement, and redemption prizes include everything from a free lunch for six after earning 800 points to a cocktail party catered in the customer's home for garnering 25,000 points.

A similar promotion is lunch or dinner clubs, in which patrons earn points toward free meals for making purchases. In Fountain Valley, CA, 150-seat Guacamole Joe's offers a free lunch to customers who come in for lunch six times, and members of the restaurant's "lunch club" always get a 15% discount on their meals. They are issued cards that show when they ate in the restaurant, and free meals are awarded after the sixth and thirteenth meals, after which a new card is started. "It has worked amazingly well for us in boosting lunch traffic," says Jesse Catano, one of the owners of Guacamole Joe's. He estimates that 45% of all lunch customers belong, and that revenues have increased by $400 per lunch since the plan was instituted three months ago.

Another "Frequent Diner" card, this time from The Lunt Ave. Marble Club.

Both chain and independent restaurateurs agree that the key to successfully promoting the operations is to keep after them. "You have to keep putting your name out there," adds Chez Melange's Franks. "It is a never-ending battle."

DEALS AND DISCOUNTS

Dealing emerged as a necessary evil in the marketplace, used competitively but with regret, particularly by the chains.

Dealing and couponing in the restaurant business occupy a peculiar position: Almost to a person, every restaurateur and chain executive disparages the activity, yet they all participate in it. The reason they offer in defense of dealing is that competitors do it, so they are forced to. "No one wants to do discount, but everyone has to when they are locked in a battle for market share," says Robert Marriott of Marriott & Associates in Mill Valley, CA, a restaurant consulting firm. George Rice, president of GDR/CREST Enterprises Inc., Park Ridge, IL, another marketing consultant, agrees: "The restaurant industry today is a battle for market share, and when that happens there are too many restaurants chasing too few diners. Dealing must be used in many cases, to get the diners into an establishment. And sometimes it's not just to get them to come in once, but to keep them coming back."

According to Rice's figures, dealing for dollars has continued to increase in the restaurant business, and he anticipates that it will expand further in 1988, although at a slower pace. In 1987, according to CREST, a service of NPD Research, dealing was up 6% to 7% over 1986, when 13% of all dining-out occasions were deal-driven. This year, Rice believes dealing will continue to grow, although he doesn't think it will be at as great a rate as last year. He sees continued slow growth overall in the industry, but admits that dealing would escalate quickly in the face of a recession.

Predictions aside, there is plenty of dealing going on now—a reflection

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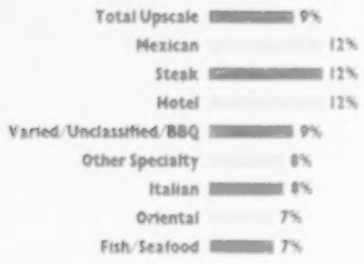
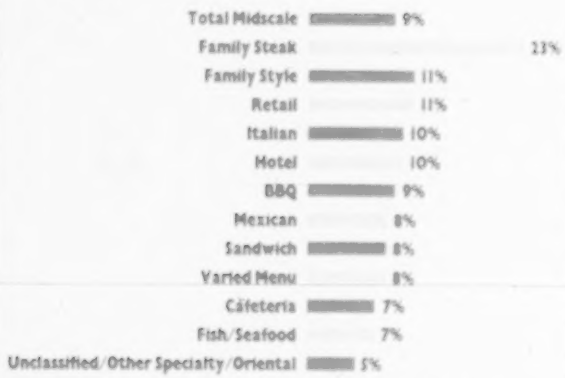
While deals are important at all price points, some market segments are more dependent on deals than others.

DEAL USAGE: Upscale Restaurants
% Occasions on Deal
June 1986-May 1987



SOURCE: CREST Total U.S. Average 2-Week Household Data

DEAL USAGE: Midscale Restaurants
% Occasions on Deal
June 1986-May 1987



SOURCE: CREST Total U.S. Average 2-Week Household Data

DEAL USAGE: Quick-Service Restaurants (QSR) % Occasions on Deal
June 1986-May 1987

SOURCE: CREST Total U.S. Average 2-Week Household Data

of various current marketing strategies. And, whether they are forced into it by competitors or start it on their own—something no one will admit to—companies are relying heavily on dealing for a number of reasons. Chief among them is to compete effectively in an ever-expanding universe of restaurant choices. "As the consumer gains more and more options," says Robert Wisely, vice president of marketing for 450-unit Carl Karcher Enterprises Inc. of Anaheim, CA, "you have to do more and more to rise above the clutter and make yourself known to the consumer. Especially here on the West Coast, couponing is a standard way of doing business. It's a fact of life. You've got to be in the ball game, and the way to do it is to deal."

A & W Restaurants used "The Great Root Bear" program to boost December traffic in 500 units.

According to Wisely, Carl's Jr. offers deals for many of the same specific reasons as do other chains—and independents. He points to new product introductions and maintenance of frequency as primary reasons. When the chain recently introduced a country-fried steak sandwich, it used coupons as well as direct mail, in-store promotional material, outdoor banners, and various supportive media. "But the price-off was the most enticing part of the deal," adds Wisely. "It exceeded our expectations, and sales of the item are holding up now at its full price." He adds that dealing and couponing must be part of an overall strategy for the company. "We've found that a promotion where we offer a deal must make a lot of sense to the consumer, and not devalue the product overall." For this reason, Carl's sticks to cents-off on new products and deals during a grand opening, or uses them as a tie-in with a new advertising campaign. "You can't use them to build market share, because consumers start wondering why meals don't cost less all the time."

George Rice encourages his clients—primarily chains—to be especially cautious when it comes to their primary products. "You can get into real trouble by discounting your main products," he says. "A company must maintain the integrity and value of the flagship items."

PEAK PERIODS. One heavy user of coupons is 1,600-unit Arby's Inc. of Atlanta. "Usually," says Melinda Ennis, Arby's group director of promotion and product marketing, "we use coupons in peak periods to drive add-on sales. But, for us, couponing is also weather-driven, meaning that we run heavier in the winter months to build traffic and sales, and sometimes as a competitive response." Arby's uses newspaper inserts four to six times a year, and qualified

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Flakey Jake's uses newspaper coupons to promote price-off specials.

open-sales promotions. "For example," explains Ennis, "a consumer has to say 'I have burger burnout' at the counter in order to get a 99¢ roast beef sandwich. He has heard about the deal on radio or television, and he repeats it to qualify himself for the discount."

Arby's also sends coupons out through direct mail, and is a heavy user of liquidations, during which a product is offered for sale at a low price when a certain purchase is made in the restaurant. Liquidations have always been used heavily in the restaurant business, and are even gaining in popularity now.

"By far, our most successful liquidation sale is the Christmas glassware, called 'Holly Days'," adds Ennis. The holiday glassware, consisting of 12-oz. stemware, a 16-oz. tumbler, and a 12-oz. ceramic mug, is sold to the consumer for 99¢ to $1.09 each with the purchase of a soft drink. "In 1987, we moved over 5 million pieces of glassware," says Ennis, "and it has driven considerable sales increases, even over the year before, when we were also running the glassware liquifier." Arby's anticipates that the program, now in its fifth year, will be repeated next Christmas.

A & W Restaurants Inc. of Dearborn, MI, recently completed the sale of 15,000 stuffed teddy bears, under "The Great Root Bear" program in its 500 stores to boost traffic during December, a traditionally slow period. "Our primary purpose was to increase foot traffic," says advertising and sales promotion manager Wendy Becker, "but we added a twist in order to increase check averages as well." The teddy bear was sold for $9.99, or $8.99 if the consumer's purchase was greater than $10. Becker also emphasizes the importance of offering a quality product when restaurants do promotional liquifiers.

"Self-liquidators, or premiums, are used very effectively in this industry," says Rice, who points to Rocky Mount, NC-based Hardee's Food Systems Inc.'s recent tie-in with California Raisin characters. "If they are used effectively, they can be extremely successful, but the consumer has to think they're worth the price. The consumer has to see the items sold on the street for more money, so he knows he's getting a deal."

But such premiums are clearly only a chain-oriented promotion, because the items for premiums—whether they be glasses, stuffed animals, or anything else—must be purchased in huge quantities, often in the millions. And the possibility of choosing a dud is very real, leaving the company stuck with tens of thousands of the product.

CUSTOMER REWARD. When the restaurant industry was in a seller's market—from the 1960s through the mid-1970s—dealing was usually done only to induce trial. Now, though, dealing is often seen as a reward for customer loyalty, and the preferred mode of transmission for "consumer loyalty" coupons is direct mail. "We can't put good coupons into Sunday newspaper inserts—it just isn't cost-effective," says Barbara Gordon, director of marketing for Big 4 Restaurants Inc. of Phoenix. "Instead, we target our coupons to people who are already using us. To our way of thinking, we do most of our couponing to say, 'Thank you for being a customer, and please come back'."

Big 4 also uses "bounce-backs," another popular technique, especially among independents or small chains. Last Mother's Day, for example, Big 4's 14 Phoenix properties offered a coupon for $1 off brunch to consumers who came in for a Mother's Day meal. And the small chain, which consists of restaurants with different concepts and names, recently completed a "scratch game" in which consumers were mailed a State Lottery-like scratch coupon, which they had to come into the restaurant to use. During their meal, they could scratch off the paper to find if they would get anywhere from $5 to $25 off the price of their meal. According to Gordon, most of the coupons offered $6 off, and it was a very successful—although expensive—promotion for Big 4.

Other couponing is done on a restaurant-by-restaurant basis to the individual establishment's mailing list, "especially if a given restaurant is experiencing difficulties," says Gordon. The mailing lists are compiled from forms customers fill out, which ask for birthdays and anniversaries. Big 4 sends cards to patrons on those occasions, but the couponing also enables the chain to develop a list of senior citizens. As a result, specials have been offered to qualified seniors. "We can really target our mailing," says Gordon. "To us, it's always better to go to people you already know are your customers than to people who may never be."

Arby's moved more than 5 million pieces of Holly Days glassware this past Christmas, the fifth holiday season the company has used the program.

REGULAR BASIS. Mark Lawrence, vice president of marketing for Indianapolis-based MCL Cafeterias Inc., agrees, say-

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WHERE DO COUPONS COME FROM?
December 1986-May 1987

	QSR	MIDSCALE	UPSCALE
Direct Mail	28%	18%	22%
Newspaper/Magazine	41	51	30
In Store/ Other Purchase	19	19	18
All Remaining	12	12	30
	100%	100%	100%

SOURCE: CREST, Total U.S., Average 2-Week Household Data

WHEN ARE COUPONS USED?
June 1986-May 1987

	% TOTAL OCCASIONS	% COUPON OCCASIONS
Breakfast/ A.M. Snacks	2%	6%
Lunch	5	36
Supper	9	53
P.M. Snacks	3	5
		100%

SOURCE: CREST, Total U.S., Average 2-Week Household Data

ing that MCL's dealing policy is to "go duck hunting where the ducks are flying." For MCL, that translates into offering price discounts in the stores on a regular basis, but not making a big deal out of it. "We don't advertise our discounts, because our purpose is to generate trial of a certain product among our customers. We definitely don't want to bastardize our products by pricing them too low. So we're extremely selective in reducing prices." The menu items that are discounted are often signature items, and, according to Lawrence, the discount depends on availability of supply and price. Generally, the discount is in the 50¢ range. "We'll drop the price of our stuffed breast of chicken, for example, to $2.29 from the usual $2.79, and time it to happen when the Social Security checks come in, because so many of our patrons are senior citizens," says Lawrence. He adds that sales of the discounted menu item level off at a higher price than it had before the discount, and generally stay there. "So we like to do it on items with a higher profit potential," he adds.

Others in the cafeteria market are reluctant to discount at all. Says Dick Pike, vice president of marketing for 150-unit Morrison's Inc.: "Any discounting we do—which is almost nonexistent—is only in the form of daily specials on a market-to-market basis. We're not anxious to discount our product."

Debra Hand, director of marketing for 120-unit Wyatt Cafeterias Inc., agrees: "We already offer a very good value, so we don't discount." But, she adds, the chain sometimes will have offers featuring a salad, drink, or dessert for a reduced price with the purchase of an entree. And Wyatt recently offered a special meal for $34.95 that Hand says could feed 10 to 12 adults. "But we really shy away from discounting our product," she adds.

Flakey Jake's Inc., which is struggling back from bankruptcy under new management, has been forced to offer discounts. "All our burger competitors offer deals, so we had to," claims Robert E. Kaltenbach, executive vice president and chief operating officer. Of the chain's 26 units, seven are located in the Southern California market, and Kaltenbach says Flakey's was "forced," as a result, into print advertising offering discounts on special meals. "We're in the Los Angeles *Times* three or four times a week, and that has proven cost-effective for us," he adds. The coupon offers a burger with all the trimmings for $3.99 and, in smaller print, reminds consumers of other deals, such as a kid's meal on Sundays. When—and if—the chain's financial position improves, says Kaltenbach, Flakey Jake's will start to use direct mail. "We'd like to better pinpoint our customer base," he says, "but, for now, we're going with the shotgun approach." And that approach has boosted traffic and increased check averages for the chain.

Whatever a restaurant's policy on dealing, it is clear that it is becoming more of a necessity for doing business in some segments and in many markets. Says Rice: "Dealing is a curse, but it is certainly here to stay."

THE GRAND OPENING

If the public's attention isn't focused on an operation from the start, valuable chances for building the business are lost.

One activity that virtually assures promotional possibilities is the opening of a new store. Whether it is the second restaurant owned by an independent or the 500th unit opened by a nationwide chain, new store openings provide ample opportunities for promotions. The key to taking full advantage of a new store opening is to turn it into an event, according to experts who handle new openings and operators who have run them.

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MARKET SEGMENT REPORT

ORIENTAL

Despite its popularity and growing sales, this ethnic cuisine has resisted attempts to create a national chain.

BY JACQUE WHITE KOCHAK

Denver-based Tokyo Bowl is gone. So is Chicago's Xian Foods. The same goes for Minneapolis, MN-based Nankin Express, which was going to expand nationwide after signing a franchising agreement with giant International Multifoods.

Jacque White Kochak is a contributing editor who works out of the Westchester County, NY, area.

Charlie Chan's is but a distant memory. General Mills Restaurant Group has decided to sell its Leeann Chin concept. And Pillsbury has closed nine of its Quik Wok units.

INSCRUTABLE. What's going on here? For several years, analysts and experts have been touting Oriental cuisine as the next expansion vehicle. And Oriental food certainly is popular; sales in the segment continue to grow at a faster rate than the industry as a whole, and that growth has been sustained for the last four or five years.

Independents like Barbara Tropp, a cookbook author and chef/owner of China Moon Cafe in San Francisco, have made Oriental food fashionable. Midprice, casual-theme chains such as Bennigan's have taken the cue and added Oriental specialties to menus. And chefs are combining Eastern and Western techniques at such trendy eateries as Wolfgang Puck's Chinois on Main in Santa Monica, CA; and La Petite Chaya in Los Angeles.

Nevertheless, very few chains have managed to succeed in the segment.

"I'm very skeptical about a significant Oriental chain developing," says

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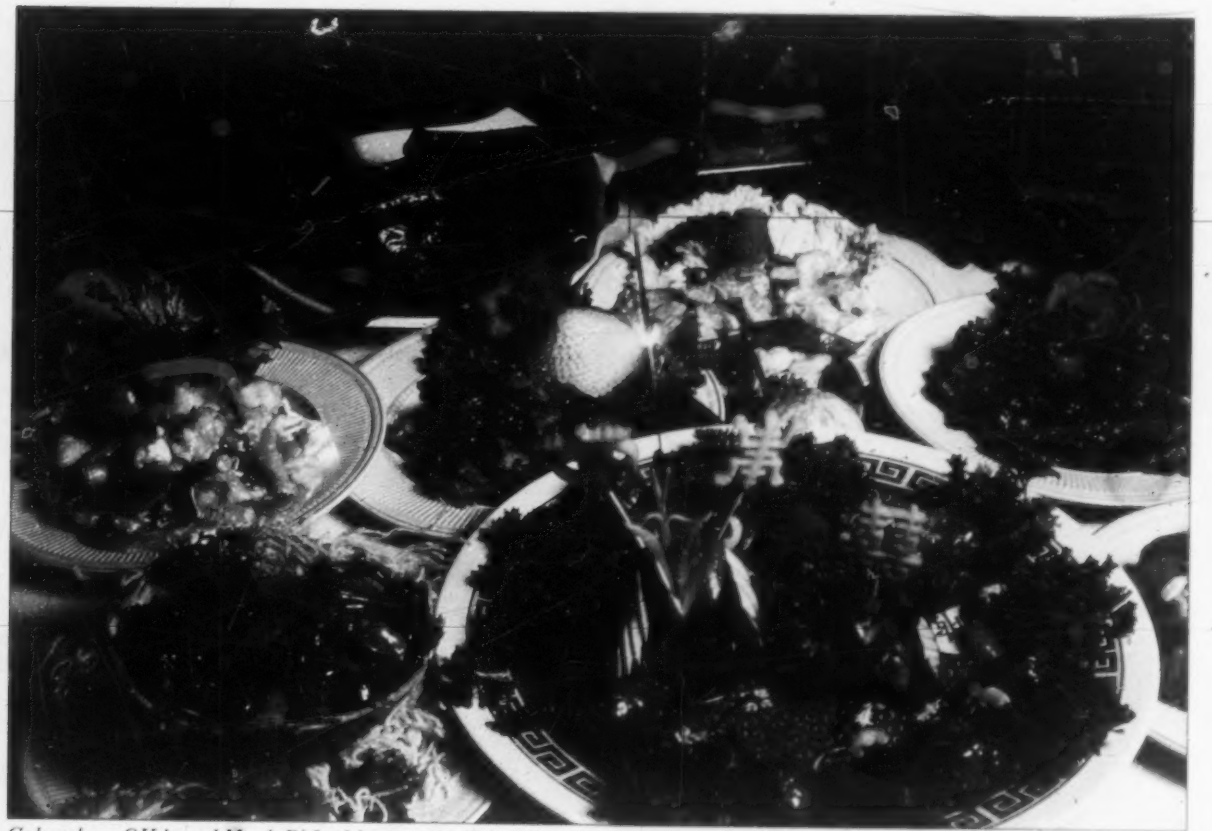


Columbus, OH-based Mark Pi Intl.'s upscale China Gate restaurants specialize in Mandarin and Szechuan cookery.

Ron Paul, president of Chicago-based Technomic Consultants. "Oriental food is sharply defined by the food and the staff—and there are many Orientals running independent restaurants. A chain doesn't really offer anything in a neighborhood that is fairly well saturated with independents, because the perception is that the Orientals do it better."

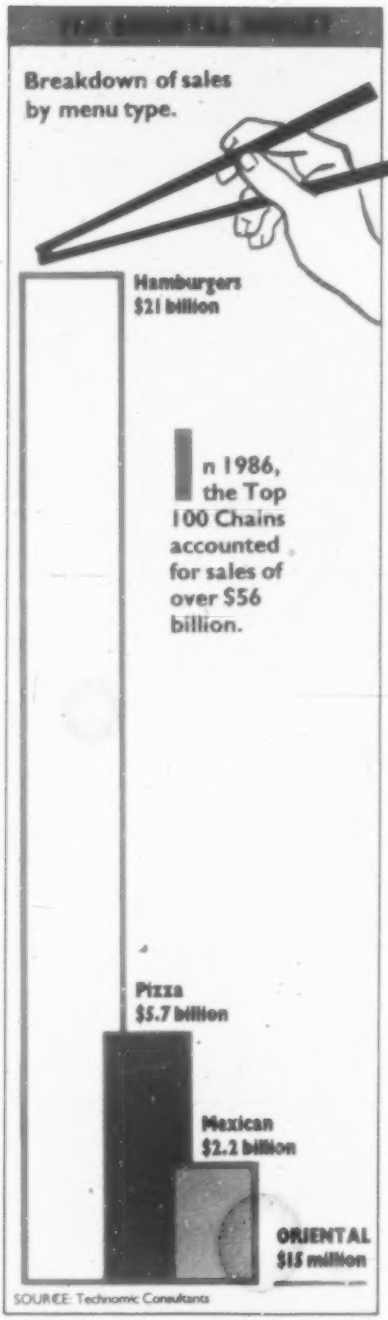
Out of 80,581 units operated by the top 100 restaurant chains in 1986, only 26 could be classified as Oriental, says Paul. That number was halved in 1987, because of the units closed by Pillsbury and General Mills.

According to Technomic's research, those top 100 chains accounted for sales of more than $56 billion in 1986; of that vast total, a paltry $15 million was earned by Oriental concepts. In contrast, hamburger chains totted up sales of $21 billion, pizza chains had sales of $5.7 billion, and Mexican chains had sales of $2.2 billion. The other ethnic cuisine that is widely considered to be ripe for exploitation by chains is Italian, which generated sales of only $35 million for the top 100 chains in 1986.

A LONG HISTORY. Chinese restaurants have prospered in this country since the days of the California Gold Rush, which drew tens of thousands of Chinese immigrants in search of work.

Over the years more and more immigrants arrived, and Chinese restaurants opened to fill the demand. In the 1950s, the restaurants began following customers to the suburbs, and it wasn't long before Chinese restaurants had become a familiar institution, serving food that was generally recognizable to diners whether they picked up their chopsticks in Nebraska or New York.

In fact, Oriental restaurants are well-represented all over the U.S., according to the Restaurant Consulting Group's 1987 RE-COUNT study. Some 5% of all restaurants in the U.S. are Oriental—17,859 units. The only segments with more units are pizza, with 41,270; hamburger, with 31,920; and ice cream, with 21,598.


Breakdown of sales by menu type.
Hamburgers $21 billion
In 1986, the Top 100 Chains accounted for sales of over $56 billion.
Pizza $5.7 billion
Mexican $2.2 billion
ORIENTAL $15 million
SOURCE: Technomic Consultants

Oriental restaurants are still most common on the West Coast and in the Middle Atlantic area, with their large Oriental populations. On the West Coast, Oriental restaurants make up 8.3% of all restaurants with 5,055 units. In the Middle Atlantic region, which includes New York, they make up 6.9% of all restaurants, with 3,712 units.

Canny Oriental entrepreneurs, eager to succeed, have always been quick to give the customer what he wants. The once-popular chop suey and the ubiquitous fortune cookie both were born in the U.S. to please Occidental customers. As the public's tastes became more sophisticated, Chinese restaurateurs introduced the cooking of various regions of China, from the spicy cuisine of the hot, tropical inland provinces of Szechuan and Hunan to the soups, fish dishes, and spring rolls of the mountainous province of Fukien between Canton and Nanking.

THE ROLE OF THE CHINESE FAMILY. Chinese families have historically run Chinese restaurants, and that fact seems curiously impervious to change. In fact, there are some who say that the traditional style of Chinese restaurant—which is what customers seem to want—cannot thrive without that traditional Chinese family in the kitchen. The same holds true for other Oriental concepts.

Says one prominent foodservice operator (who tried opening an Oriental concept but failed to develop a wide following): "Chinese restaurants depend on food and the control of labor to keep prices low and to succeed. They are very labor-intensive, more so than most other kinds of restaurants. Chinese families have within their nature and structure that labor and willingness to work. Most entrepreneurs who try to create a concept don't have those labor efficiencies. There's a lot of potential, but it's hard to realize," he adds. "When you take the family out of the concept, you incur unnecessary costs; and if you put in labor-saving equipment, you change the character of the product."

CHINESE FACES. Mexican food has been successfully mainstreamed, and no one seriously expects to find a Mexican chef in the kitchen of every Mexican restaurant. Yet people want to see Chinese faces in a Chinese restaurant.

"It doesn't seem authentic if there are some college kids in the back doing

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CHART BY SHARI FANG

MARKET SEGMENT REPORT

ORIENTAL

Boston-based Weylu's is a family-owned business with four restaurants, including this one located in Brockton, MA.

the cooking. And Orientals are entrepreneurial by nature; they're not all going to work for an American company," points out Technomic's Ron Paul.

Other foodservice observers agree in part. "All I can suggest is that the problem has to do with the execution of a chain concept. Chain restaurants have been unable to recreate the same type of appeal that independents have created. I think it comes down to the authenticity of the food product," says George Rice, chairman of GDR Enterprises and spokesman for CREST Research, a division of NPD Research.

Nevertheless, the Oriental segment is such an enticing target that eager entrepreneurs keep trying to hit the bull's-eye. Perhaps not surprisingly, the most successful expansion so far has been carried out by Oriental-owned companies.

Japanese-owned Dosanko Foods operates 11 restaurants specializing in noodle dishes in New York City, and has plans to open six more over the next three years. Another Japanese company, Yoshinoya West, operates more than 20 Yoshinoya Beef Bowls in the Los Angeles area; the restaurants specialize in rice with various toppings such as beef and chicken. Empire Szechuan Restaurants in New York City operates 12 units, specializing in spicy Chinese cuisine. And Tulsa, OK-based Eggroll Express, owned by Frank Wong, has several fast-food Chinese outlets in Tulsa, Dallas, and Houston.

"I really think that Chinese food can be demystified, but there's a question in our minds about whether there can be a national chain. We're not looking to be the next Chi-Chi's," says Keith Lowry, executive vice president of Columbus, OH-based Mark Pi International, a chain of 20 full-service China Gate restaurants and nine fast-food Ancient Wok units started by Chinese immigrant Mark Pi.

PULLING BACK. The decisions of two foodservice giants, Pillsbury and General Mills, to acquire and grow small Oriental chains as subsidiaries riveted attention on the segment, and their decisions to pull back now are equally interesting.

Originally, Quik Wok was acquired by Burger King as an expansion vehicle. The chain consisted of both take-out/delivery units and sit-down restaurants. However, Pillsbury closed all nine of the take-out/delivery units last year and is now trying to sell the remaining units.

"There could be a host of factors in the failure of Quik Wok, including the usual ones such as site selection and food quality," says John Bierbusse, an investment analyst who follows Pillsbury for St. Louis-based A.G. Edwards & Sons. "The units were mostly opened around S&A headquarters in Texas, and that may not be the best environment for a start-up right now because of the Oil-Belt economy."

He goes on to say that he, like so many others, wonders how effectively a chain can compete against the large number of independents in the segment. "And I have some reservations about how widespread the popularity of Chinese food really is," he says. "My perception is that Oriental food is an urban cuisine."

"You can't make another McDonald's out of Chinese food," says an observer who, in the past, developed a fast-food Chinese restaurant. "Pillsbury thought Quik Wok could serve a very limited menu from a steam table, because that's the only way you're going to do it if you have a drive-thru. But you just can't serve good quality food off of a steam table when business is slow. I know, because I tried. Everything's got to be cooked fresh."

General Mills Restaurant Group has reached an agreement in principle to sell its Leeann Chin's Inc., an upscale

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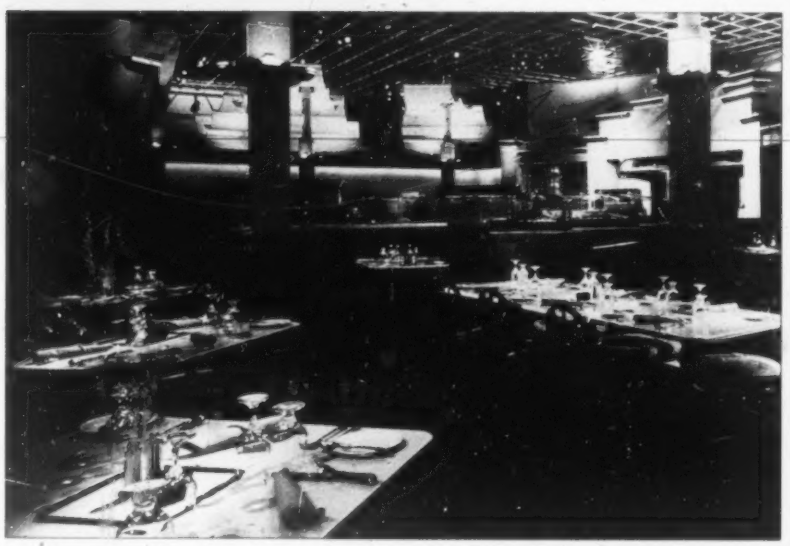
MARKET SEGMENT REPORT

ORIENTAL

Left: At Benihana restaurants, chefs entertain guests with twirling knives and at-table preparation. Below: Benihana also operates a seafood concept called The Big Splash.



Chinese concept, back to its founder and president, Leeann Chin.

"We still believe the Oriental segment is very viable," says Anne Powell, manager of media communications for General Mills Restaurant Group. "We were not disenchanted with the segment, nor were we disenchanted with the company. We think that Leeann Chin's has a lot of potential for expansion, and does very well in Minneapolis. It's just that Red Lobster and the Olive Garden have been our growth vehicles for the last three years, and we have been expanding both of them very aggressively. We decided to concentrate on our strengths and not get into developing a new chain."

Three full-service Leeann Chin's are located in the Minneapolis/St. Paul area, as well as seven take-out units. One full-size restaurant and three take-out units opened in Chicago by General Mills in Chicago were closed several months ago.

Leeann Chin's was founded eight years ago by Leeann Chin, a native of Canton, China, who immigrated to Minneapolis in the 1950s. She began teaching Chinese cooking in 1972, then in 1975, began teaching at General Mills' Creative Learning Center. In 1980, she sold a compendium of her recipes to Betty Crocker for "Betty Crocker's Chinese Cookbook." That same year she also opened the first Leeann Chin's.

Leeann Chin's specializes in Cantonese cooking, served buffet-style for a fixed price. Three appetizers and three entrees, which change every day, bring $6.95 at lunch and $7.95 at dinner. Although the buffet is short on variety, critics agree that the restaurants are long on quality, and Leeann Chin's restaurants are consistently rated among the most popular in the Twin Cities area.

But the food is not the only attraction; the full-service Leeann Chin's are distinguished by the elegance of the decor, which eschews a traditional Chinese look for soft track lighting highlighting Oriental prints and white lucite display cases housing Chinese artifacts of ivory, jade, and porcelain.

The take-out units offer seven appetizers and 10 entrees ranging in price from $3.50 to $4.25. The menu includes chicken wings in oyster sauce, potsticker dumplings, egg rolls, shrimp toast, lemon chicken, sweet-and-sour pork, Szechuan shrimp, garlic chicken, stir-fried beef, and sesame beef, all served from a steam table.

Chin is puzzled as to General Mills' reasons for deciding to sell her concept. She believes there is potential for Chinese food on a larger scale. "People are still trying, but it isn't easy; serving Chinese food is not like serving a

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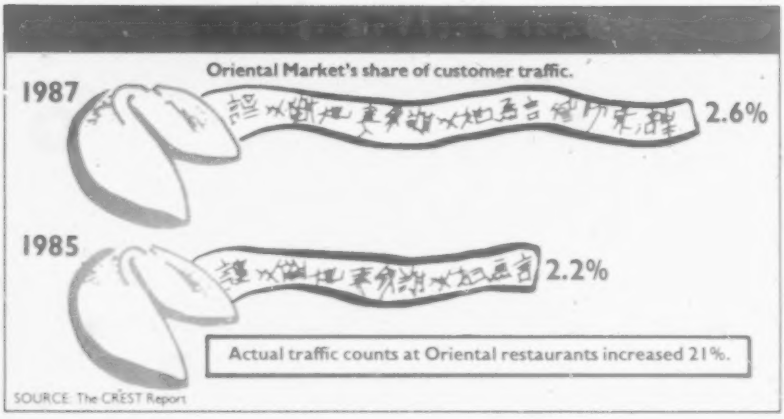

CHART BY SHARI FANG

hot dog or a hamburger," she says.

Chin thinks that Chinese cooking doesn't meet the same response in all parts of the U.S. "Not all Americans like the same thing, and some are more adventurous than others," she says. "You have to understand the area, and know whether people are looking for new tastes, or just the old standards."

BENIHANA'S SUCCESS. One of the few chains that has managed to establish a significant presence in the Oriental segment is Miami-based Benihana of Tokyo, which oversees 20 company-owned restaurants and eight franchised restaurants, and its s[illegible]y Benihana National Corp., [illegible] company that oversees 16 c[illegible]-owned units and one franchised unit.

Benihana also operates two Big Splash seafood restaurants, both located in Miami.

The theory that in an upscale environment, service and decor become more important to the customer, may be one of the reasons Benihana can compete effectively against independents. Most other companies have tried to tap the potential of the Oriental segment using a fast-food format, where speed and convenience as well as food quality are important factors. Since Chinese restaurants practically invented fast food with their take-out operations, fledgling quick-service chains have found the going tough.

Observers agree that Benihana, founded by flamboyant Japanese immigrant Rocky Aoki 25 years ago, has succeeded by being unique, combining good food with an unusual atmosphere and a theatrical and entertaining style of service. Oriental restaurants are traditionally long on good food but short on atmosphere, so Benihana's elaborate dining rooms and dramatic style of service are definitely pluses.

In addition, Benihana has brought professionalism to a segment that has traditionally been dominated by small, sometimes struggling, independents. "Our restaurants are clean, our employees are trained, and we spend a lot of money on advertising and promotion," notes Benihana National Corp. president Joel Schwartz.

The Benihana restaurants specialize in the *teppanyaki* style of Japanese cooking, with customers seated around a large table with a grill in the center. A Japanese chef makes a show of twirling knives while chopping vegetables and slicing meats at the table, before grilling the customer's dinner in front of him.

In fact, Benihana is no longer in direct competition with Oriental restaurants; the competition are other theme restaurants. Even so, Benihana executives bow to the idea that customers like to see Oriental faces in an Oriental restaurant. Some chefs are recruited stateside, but the company maintains an employee recruiting office in Japan to lure chefs and managers to the U.S.

Benihana will continue to open restaurants at a slow but steady rate, says Schwartz. A new unit just opened in Puente Hills, CA, and plans are underway for a unit in Walt Disney World Village in Orlando, FL. Restaurants average annual unit volumes of about $1.5 million.

In recent years, Benihana had ventured into the frozen-food business, but that has just been sold to Freezer Queen Foods Inc. for $4.5 million, including cash and the assumption of $1.1 million of certain liabilities. Benihana will also receive royalties on sales. According to Schwartz, the sale allows Benihana to refocus attention on its core restaurant business.

A company that is similar in concept to Benihana is Gasho of Japan, with headquarters in Central Valley, NY. Three other units are located in the New York City area, and two in Denver. Gasho of Ja[illegible]a also specializes in teppanyaki cooking, with flamboyant chefs flourishing knives at tableside. The restaurants are reconstructed Japanese farmhouses set amid elaborate Japanese gardens.

Gasho has done a good job of melding Oriental cuisines with Western influences to create a crowd-pleasing restaurant. For example, Gasho offers a Sunday brunch that combines Japanese specialties such as [illegible]up, vegetable tempura, tofu, and chicken teriyaki with such American favorites as bagels and scrambled eggs. The brunch, which includes unlimited champagne, costs $10.95.

The regular menu combines true Japanese specialties with delicacies that could be called Oriental-inspired. Sashimi; eel teriyaki; hibachi shrimp, scallops or crab; and tempura dishes are all authentic, but a flounder-and-scallops combination topped with bread crumbs with tomato and garlic might raise eyebrows in Tokyo.

Gasho successfully aims at Middle America, and in fact, the Central Valley restaurant near West Point routinely draws a broad range of tourists and senior citizens. Bus tours frequently stop there. "We worked very hard to get them here, because in the beginning a lot of them thought Oriental food was either raw, or Chinese," says Kay Schmidlein, Gasho's president.

Gasho is Japanese-owned, so like Benihana, the company recruits chefs

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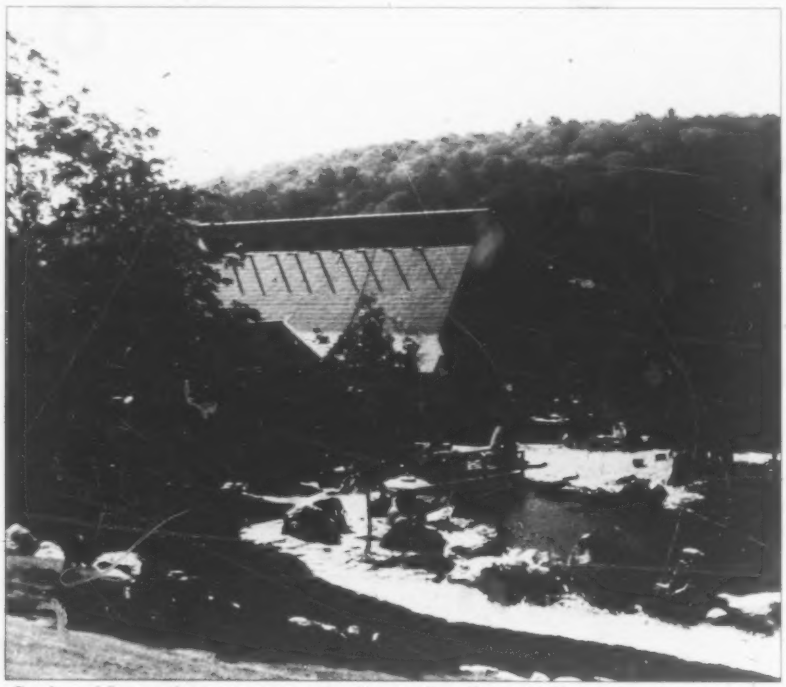
ORIENTAL



Gasho of Japan has a concept similar to Benihana's, but its restaurants are reconstructed Japanese farmhouses set amid elaborate gardens.

in Japan. Schmidlein notes, however, that it is getting harder and harder to lure Japanese chefs to the U.S. because the Japanese economy is so strong.

More Gasho restaurants will be built in the future, but slowly; each unit requires three acres of land and costs at least $2 million, depending on the cost of the land. The average unit grosses about $1.6 million annually, says Schmidlein.

LOW PROFILE. One of the largest Oriental chains has kept a very low profile since its beginnings in 1982. Columbus, OH-based Mark Pi International now operates 20 full-service China Gate restaurants and nine quick-service Ancient Wok operations, almost all of them in Ohio.

Mark Pi International is interesting in that the company was a family business started by Chinese entrepreneur Mark Pi, but is now in the process of becoming a professionally managed company.

Pi grew up in Korea, where his parents operated a Chinese restaurant, then immigrated to the U.S. with $50 in his pocket. He saved his money and bought his own restaurant, then sold it for a profit and bought another. Eventually he moved to Columbus with the intention of starting a chain; he chose Columbus because it is centrally located in Ohio, and is a booming white-collar center.

Like Benihana's Rocky Aoki, Mark Pi is an ambitious entrepreneur with flair. He worked as a noodle maker at his family's restaurant in Korea; bored by the repetitiveness of the job, he made a game of it by making noodles ever faster. He developed a skill that one day would earn him a place in the Guinness Book of World Records, then went on to beat his own record several times over.

He started opening restaurants all over the state, then slowed expansion to give administrative management a chance to catch up. Only five new restaurants opened in 1987, and no more will open until summer. Keith Lowry, who had advised Pi as a consultant on design and development, was brought in as executive vice president a year and a half ago, and a number of other professional executives have joined him.

As the company develops professional management, the restaurants are evolving. The original China Gates featured traditional Chinese restaurant decor; newer units are very contemporary, with a post-modern, art deco feel. The only Oriental elements are a few selected architectural details and pieces of fine artwork. The atmosphere is upscale, with white tablecloths and tuxedoed waiters; restaurants range in size from 60 seats in Zanesville, OH, to 250 seats in Columbus, OH.

Mark Pi restaurants have built a reputation on a broad, high-quality menu specializing in Mandarin and Szechuan cuisine. Appetizers include such American favorites as fried wontons, egg rolls, barbecued ribs, and potsticker dumplings. Soups include hot-and-sour soup with whole baby shrimp, egg drop soup, and shark's fin soup. Entrees range from orange beef to crystal shrimp, General Tso's chicken, and the Dragon and Phoenix combination, consisting of shrimp, crabmeat, and sliced chicken sautéed with snow peas, water chestnuts, baby corn, sliced carrots, and fresh mushrooms in a light wine sauce. Check averages range from $12 to $18, depending on the market area.

The Mark Pi restaurants are a subtle blend of Chinese cuisine, ambience, and faces with Western-style marketing and advertising savvy. For example, the company publicizes a "Gourmet Club," giving members a variety of discounts, and "Taste the Orient" promotions offer an entree, egg roll, soup, steamed or fried rice, and a drink for $9.95.

SKILLED CHEF NEEDED? An oft-mentioned problem in expanding a Chinese restaurant is that a skilled Chinese chef is so important to the concept. Each chef tends to make the traditional favorites in a slightly different way; if he leaves, customers are disappointed. And he can't be in two restaurants at once. "Quite often the chef holds the

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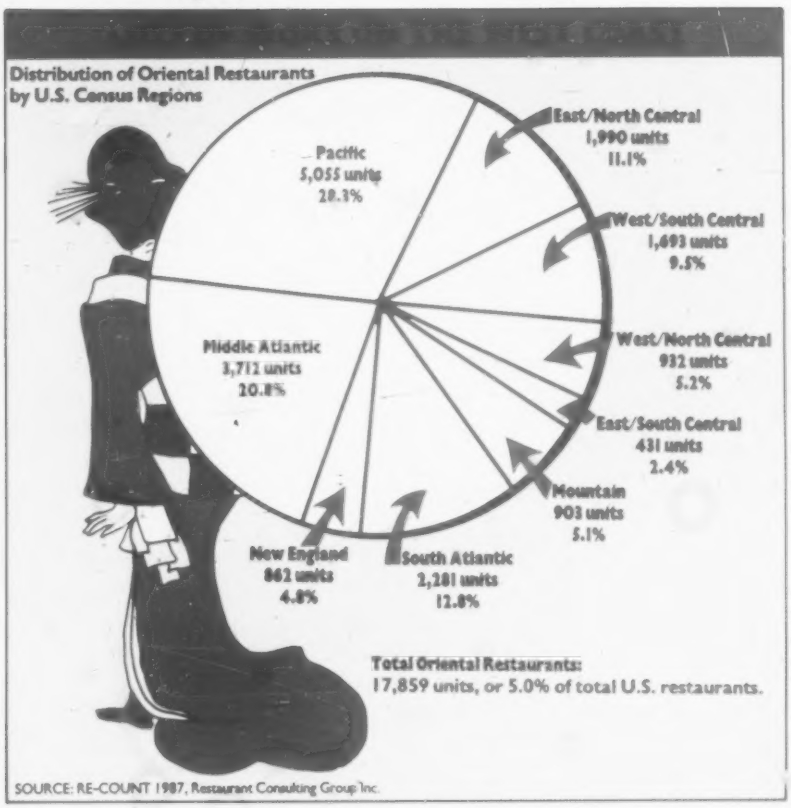

CHART BY SHARI FANG

owner hostage," observes Lowry.

To overcome this dependency, Mark Pi International has a commissary, which supplies egg rolls, meats, and nonperishables to restaurants, and is working with consultants to develop operating systems and training manuals to maintain consistent quality. In fact, the key to Mark Pi's growth pattern is the commissary. "We're trying to keep all units within a five-hour drive-time," notes Lowry.

Lowry believes that several factors have worked against the development of a full-service Oriental chain. The complexity of the menu makes it difficult to systematize operations. There are problems obtaining enough Oriental labor, and Lowry believes that it is difficult to train Caucasians to understand Oriental food. Therefore, China Gate restaurants use a food-expediter system; the expediter acts as a go-between for waiters and the cook's line, and assembles meals. He receives extensive training, while the restaurant's more numerous waiters require less instruction.

China Gates are located in cities with populations as small as 70,000, and in those cities Caucasian waiters are common. "There is definitely an advantage to having Oriental faces in contact with the public, but we think that ambience and service are very important, too," says Lowry.

The company hopes to open 50 China Gate restaurants over the next five years. For now, expansion of the Ancient Wok concept is on hold. "China Gate is what we do best," says Lowry. "The Ancient Woks are doing well, but fast food is a considerably different ball game than Mark Pi originally thought. He believes that we need to establish our reputation in full service before attempting a fast-food format, because lack of a systemized approach shows up a lot faster in fast food."

FAMILY-RUN OPERATION. Orientals are noted for their entrepreneurial spirit, and other family-owned Chinese restaurants are slowly expanding to two, three, or even more units. One of these is Boston-based Weylu's, with four restaurants in operation in Saugus, Salem, Boston, and Brockton, MA, and a fifth to be built in Saugus. The restaurants are owned by Rick Chang, with Billy Tse a general partner and corporate general manager.

True to the stereotype of Oriental restaurant companies, Weylu's is very much a family-run operation. Chang's wife, brother-in-law, and mother-in-law work for the company, as well as Tse's sister, brother-in-law, and father. Tse also brought his uncle over from Hong Kong to make pastries at the new restaurant.

The new restaurant, set to open in a year and a half, will be a vast facility seating 1,000 people. Called Weylu's Palace, the restaurant will resemble a six-story Chinese pagoda. An interior designer is coming from China to create dining rooms reflecting the decor of different dynasties, and a driveway cutting through the center of the building will provide a convenient drop-off point for customers.

Another restaurant, Seasons on the Common, was to have opened by now in Boston, but was destroyed by fire. The three-story restaurant, again under construction, will feature a different style of cuisine on each floor. The first floor will serve Chinese specialties; the second floor will serve appetizers prepared over an open hearth, as well as Chinese pastries, and the third floor of the restaurant will feature new American cuisine.

The first Weylu's opened 10 years ago, and Chang has built a solid business serving Szechuan and Mandarin offerings from a very broad menu. Specialties include hot-and-sour soup, Fuyung Three Treasures (large shrimp, scallops, and white chicken meat sautéed with broccoli and mushrooms in white-wine sauce), orange beef, and Szechuan spicy lamb. Recently, Chang branched out to open Rick's Cafe, serving new American cuisine in

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Samurai Sam Jr. combines popular Chinese stir fries with Japanese teppanyaki cooking and Japanese-inspired charbroiling.

an old church in Newton, MA.

Tse notes that so far Weylu restaurants are staffed primarily by Chinese employees, and that is important. "I am from Hong Kong, and if I walk by a table, I know exactly what's wrong with a dish. It is very hard to train someone to do that," he says. "Really, someone has to live in China and know the cultural background to know the food."

Weylu has brought six chefs from China, and at times brings employees from Taiwan. The days of relying almost exclusively on Chinese employees may be numbered, however. "Just like everybody else, we're having a tough time finding help, especially with the new immigration laws," says Tse.

ASPIRATIONS. A company with solid aspirations but as yet few units is Miami-based Samurai Sam Jr., a fast-service concept with a unique formula that just might work where others have failed. Samurai Sam Jr. doesn't attempt to beat the ethnic Chinese at their own game; owner Sid Shane instead combines 10 of the most popular stir-fried Chinese specialties with Japanese teppanyaki cooking and plenty of Japanese-inspired charbroiling.

Charbroiled entrees include beef *yakimono*, marinated beef and vegetables barbecued with sauce and served on a skewer; *yakitori*, marinated chicken barbecued with sauce and also served on a skewer; Hawaiian ribs; and chicken teriyaki.

Samurai Sam Jr. offers the Oriental specialties in a clean, bright, modern environment with soshi screens and neon. Fresh foods are displayed and cooks clad in happy jackets and headbands cook in full view of customers in an open kitchen.

While the food is similar to what would be served in a full-service restaurant, emphasis is on speedy carryout and delivery. One company-owned unit in Miami is now open, as well as franchised units in San Jose, CA, and Houston, TX. Several other units are under construction, and more franchises have been sold.

Until 1985, Shane operated Samurai Sam's, a Japanese steak house, in California. He says that the location was hard to find, and labor was difficult to maintain, so he went back to the drawing board and spent a year and a half putting together Samurai Sam Jr., a quick-service concept which requires a minimum of employees.

Shane says that delivery seemed to be a natural. "We can cook Oriental food faster than Domino's can cook pizza, and I think Chinese food was being delivered before pizza," Shane maintains.

Right now, delivery accounts for about 30% of sales in the Miami store, while takeout accounts for 50%. Shane says he hopes that ratio will eventually reverse itself.

Instead of using the white rectangular take-out containers so familiar to devotees of Chinese restaurants, Shane uses special microwaveable oval bowls that can be delivered directly to the table.

And to underscore the fact that Samurai Sam Jr.'s food is equal to that of a full-service restaurant, the company offers a Silver Platter Dinner for entertaining. Six entrees, arrayed on silver serving platters, are delivered to a customer's home accompanied by two side dishes, at a cost of $12.95 a person. All the host has to do is set the table with his own china and crystal.

Samurai Sam Jr. also offers family dinners for $7.95 and $9.95 per person. Included are wonton soups, egg rolls, spicy Kung Pao chicken wings, fried rice, and a choice of several appetizers.

Shane insists that Oriental cooking really is not difficult, except for the vast number of items typically on a menu, and the number of sauces that are usually made by a chef on-premise. "You can't have an Oriental chain depending on an Oriental chef," he says. "He doesn't cook by recipe, and if he leaves, you can be out of business."

To solve those problems, Samurai Sam Jr., like Mark Pi International, utilizes a commissary for preparation of the basics.

"The training is really in the preparation of foods, which we do at the commissary," he says. "In the units, employees just marinate and stir-fry. We make 11 sauces at the commissary."

Shane is optimistic about his chances for success, and he makes a good point: "A Chinese restaurant hardly ever goes out of business. Why is everybody else? Obviously, they're doing something wrong!"

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